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**Soviet Spending for Defense:
Trends Since 1951 and
Prospects for the 1980s (U)**

Key Judgments

The dominant feature of Soviet defense spending over the past 20 years has been the persistence of its growth. Since 1965, the growth has averaged about 4 percent a year—about the same as that for the overall economy. Over most of this period, the defense share of GNP was a relatively constant 12 to 13 percent. In 1979 the share increased by a percentage point. 25X1

This 20-year commitment of resources to the Soviet defense effort has paid substantial dividends in political prestige and military power, but it has drawn scarce human and technical resources and raw materials from the economy. In specific sectors that are key to economic growth—machinery, fuels, power, and chemicals—the Soviet military requirement has been even higher than the one-eighth share that defense takes from the economy as a whole. 25X1

Resource commitments to these key areas will be increasingly important to the economy as demographic and energy problems combine with longer standing difficulties to retard economic growth. Under these conditions, maintaining historical rates of growth in defense spending will be economically and politically more difficult. If defense spending continues to grow at about 4 percent per year and economic growth continues to decline, the defense share of GNP could increase to 15 percent in 1985 and could approach 20 percent by the end of the decade. This would drastically reduce the extent to which additional resources could be allocated to investment and consumption. It would also erode future increments to GNP that have been so important in the past in easing political tensions that arise from the competition for resources. Indeed, it appears that the preparation of the 1981-85 economic plan has involved particularly difficult decisions on the allocation of resources between defense and the other sectors of the economy. Despite such factors, we have seen no indications of a shift of resources away from the defense sector. 25X1

On the basis of observed military activity—the number of weapon systems in production, weapons development programs, and trends in capital expansion in the defense industries—we expect that Soviet defense spending will continue to grow at about its historical rate through at least 1985. In this connection, however, a deputy chairman of the Soviet State Planning Committee (Gosplan) told a former US budget official last May

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that the Soviet Union has been adjusting its 1981-85 economic plan to accommodate "large increases" to the military. These increases allegedly are intended to counteract US defense budget increases and, according to this official, have required important revisions in plan targets. []

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If the Soviets are adjusting their 11th Five-Year Plan to accommodate "large increases" in defense activities, such increases would almost certainly be related to the production of military hardware. Opportunities for immediate increases could well be limited by chronic bottlenecks in the supply of components and materials. In the short run, therefore, Soviet adjustments to increase military production would likely be limited to two courses of action: modest increases in production rates for some selected systems already in or about to begin production, or the extreme measure of industrial mobilization. Longer term options include increasing investment in the defense industries to expand their capacity to produce military systems in the mid- and late 1980s and adding new development programs to those already planned. []

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Large increases in Soviet defense activities probably would be directed primarily against what the Soviets may perceive as an accelerating arms competition with the West. Since March 1981 the Soviets have apparently become less hopeful about the prospects of achieving arms control agreements with the United States and more concerned about how to preserve Moscow's military-strategic position. With this perspective, the Soviets would probably pursue a combination of near-term production increases for selected systems and longer term increases in investment and developmental activity to hedge against what in their view is an increasingly uncertain strategic environment. []

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If the Soviets pursued these options, defense spending would probably grow above historical rates in the mid- and late 1980s and beyond. In the near term, investment in some civilian sectors would suffer. Cutbacks probably would occur in such areas as consumer durables, services, housing, and machinery and equipment for the food and soft goods industries. Such cuts would worsen already poor prospects for improving labor productivity over the next five years and could increase worker discontent. Despite these consequences, we believe the Soviet leadership would be inclined to continue the current mix of cosmetic concessions, short-term fixes and patriotic appeals and, if necessary, to adopt repressive measures to ensure both continued growth of their defense effort and domestic control. []

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We would detect indications of large increases in Soviet weapons development and production programs well before such weapons became operational with Soviet forces. The best indicators would be higher levels of weapons testing activity and increased capital construction at key weapons production facilities. Specific testing programs and plant expansion projects would probably provide several years' advance warning of changes in the mix and levels of weapons the Soviets intend to acquire later in this decade.

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